Taylor, Myron Charles

Annual meeting of stockholders of the U.S. ...

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ANNUAL MEETING OF STOCKHOLDERS

OF THE

UNITED STATES STEEL CORPORATION

Hoboken, New Jersey

April 4, 1938

TEN YEARS OF STEEL

EXTENSION OF REMARKS

OF

MYRON C. TAYLOR

Chairman, Board of Directors

FOREWORD

As I have often said during the ten years that I have been an executive of the Corporation, I entered its service out of a sense of duty to perform a definite task. The task was to undertake a readjustment of its basic organization and of its plants, its facilities and its personnel, so that it might continue in the future to justify the splendid history of its past.

In several annual meetings, I made known to the stockholders of the Corporation what I had long since made known to a number of Directors—that when I could fairly say that these matters had been accomplished I might retire from the active executive service of the Corporation, to resume my place as a private citizen, without the responsibilities and exacting duties of any kind of office—public or private.

The task has been longer in the doing than expected, for the depression descended on us and held up our plans—just as it held up the plans that most men had made for themselves. For a while we in the Corporation had almost to mark time, and then we had to proceed very slowly in order to keep well within the limits of our reduced resources. We have undertaken to reorganize and define the Corporation's finances, plants, equipment, personnel and future policies. My part of this is done or is provided for in the plans now com-

pleted or well under way. And so I feel that it is desirable for me to retire and place upon the shoulders of the large number of fine new executives whom we have brought forward in the Corporation the full responsibility for carrying on.

I have looked forward to the completion of these plans with pleasant anticipations, but now I find that my satisfaction is tempered with a certain regret. It has been a stirring adventure to lead the Corporation army of about 500,000 people—more than one-half of them being workers and the other half stockholders, with some 40,000 both workers and stockholders—through these years when economic forces of resistless power have been sweeping us hither and yon. It is a satisfaction to have kept the Corporation, even at the worst, employing a great number of men and women; meanwhile to have improved the Corporation so that it has become a more modern and efficient facility; and to have served the Nation in a time of peril. It is a satisfaction to have the Corporation emerge better fitted for its work and its destiny than when the great depression came.

The future of the Corporation rests upon the skill with which it is managed and the resumption of a normal, national volume of business. The affairs of the Corporation cannot be considered apart from the affairs of the Nation. But I have no doubt whatever of the ultimate future of both the Nation and the Corporation. I take leave as an executive officer with confidence in the usefulness of the Corporation to its stockholders, to its employees, to the consumers of its products, and to the Nation. It is an enduring satisfaction to all of us to have been steadfast amid danger.

I

Looking backward over the decade, it will make for a clearer view of those many things that have been happening in the Steel Corporation if we consider the nature of the years and the nature of the Corporation.

The Corporation is much more than a commercial enterprise. It is a national institution and its pulse throbs with that of the nation. And so it cannot be successfully managed solely and restrictedly as a commercial enterprise. But, at the same time, it is a private institution, in that it must stand on its own feet. It has the three-fold obligation of keeping its policies in consonance with the public interest and with the interest of the more than two hundred thousand men and women whose savings have been entrusted to it and with the interest of the two hundred and fifty thousand employees who depend upon the Corporation for a living.

Throughout the ten years, the Corporation has had a philosophy and a plan. It has not been necessary to change the philosophy. Indeed it could not be changed, for it was not founded on expediency. It was founded on the simple verities of life—and they do not change. The plan, from time to time, has had to be changed and details of its execution postponed, because the Corporation must furnish its own motive power and therefore it could not go faster than the prudent use of its resources permitted. Thus it has taken ten years to do what I had hoped we could do in five years.

These have been turbulent years, and no man yet knows the full significance or the permanency of the social changes that have come about. My administration began with almost

two years of booming business. This ended with the stock market break of October 29th, 1929. Then began the depression, which, as it deepened, so changed the mode of men's thoughts that ever since as a nation we have been depression-minded. The depression ran its course and reached its depth in 1932, since which time we as a nation have been fitfully regaining a measure of economic health. We have not been as a nation self-supporting since 1931—which is the year the Federal deficits began. Therefore it has been impossible at any time to say, and it is now impossible to say, how much of the business of the Corporation has been derived from the normal needs of the people in the course of their daily production and how much has been derived from the direct spending and the relief spending of the Government. The country has gone from the gold standard to a managed currency standard, and the full effects of that change are still obscure. For nearly two years the country tried out a new business system under the National Industrial Recovery Act. While industrial production and the whole of distribution were trying to find their bearings under the N. R. A., the methods of agricultural enterprise were profoundly changed by the Agricultural Adjustment Act. For a time, the nation operated under a new economy that reached after a substitute for competition. That period had social consequences which are still with us and which find expression in the Guffey Coal Act, the Robinson-Patman Act, the Miller-Tydings Act and other statutes.

Heavier taxes, as well as new forms of taxes, have altered both the cost and the budget factors of doing business. The consequences of these taxes, including the charges imposed by the Social Security Act, are too complex for definite appraisal

at this time. Under the Wagner Act, the relations between employer and employee have been placed upon a new but as yet indefinite footing which has occupied both sides of the human work equation. There have been many strikes. Wars and the threats of wars, revolutions and the threats of revolutions have disturbed and continue to disturb the world, which has further been clouded in several great nations by the rise or the development of the concept of the state as the supreme overlord of economic life.

The changes brought about in the economy of our country by legislative acts have been very great and important. They have presented one set of problems. The financial exigencies of the depression have presented another set. The changes in the operating rate of the Corporation will give an indication of the financial problems. In 1928 the Corporation operated at 83.4% of finished steel capacity; in 1929 at 89.2%; in 1930 at 65.6%; in 1931 at 38%; in 1932 at 18.3%; in 1933 at 28.7%; in 1934 at 31.2%; in 1935 at 38.8%; in 1936 at 59.3%; in 1937 the high, which came in April, was 90.9% and the low, which came in December, was 30.2%, the average for the year being 71.2%. Such fluctuations as these are beyond the power of man to cope with. But, while the total steel consumption was rapidly sinking, it was also changing its character. The country moved from a capital goods economy to a consumption economy. This change probably derives from the fact that a nation which is not earning its living requires only such capital goods as are needed for replacement and in the day-to-day production of consumption goods. That is a shift which in the nature of things cannot be permanent, but it vitally affected the Corporation because its capacity, having been designed for the kind of demand

that existed prior to 1929, stretched over both capital and consumption goods, with the emphasis on capital goods.

While this revolution in the habits of the people was taking place, the steel industry itself went through what amounted to a revolution in the introduction of continuous rolling mills for the production of flat hot and cold rolled products, and these products began to assume first place in the industry, once it was discovered that they amounted to new products that could be put to new uses. Into an unsettled industry which, on the whole, was losing money there came an almost instant demand for the laying out of great sums to meet the revolution in the science of steel making which transformed it almost over night from a rough industry into a precision industry. The Corporation had to meet the challenge.

I have taken it as a part of my duty as a trustee working for the ultimate good of the army of stockholders and workers who together compose the Corporation to arrange, to the best of my ability, for cooperation between the Corporation and whatever national administration happened to be in power. The lines of interest of the Corporation considered as a whole and of the public considered as a whole must run parallel—for the Corporation cannot exist except as it serves the public. Those are not mere words. They express a fundamental truth and I think that this truth is more widely accepted today than at any time in the history of the Corporation. I can say this with an entire objectiveness.

During the N. R. A. period, which extended over about two years, a good deal of my time was necessarily spent in Washington, with my associates, and through the ten years of my service my visits to Washington have been frequent—not as

an individual but as the chief executive of the Corporation. My mission has not been to seek any special advantages for the Corporation nor merely to keep the Corporation within the law, but to attune the policies of the Corporation to the national policies as part of the Corporation's obligation of citizenship.

The other obligations—the obligations to those who own the Corporation and to those who work for it—have been met by an almost complete internal reorganization of the Corporation. The Steel Corporation of today is not the Steel Corporation of 1928. Its financial economy has been made over, its directing personnel and the manner of its direction have been made over, and its physical properties have been so largely made over, that, of the production in 1937, scarcely one-quarter was of the same composition or made in the same fashion as the production of 1928. During this period of deep industrial unrest, which has seen more strikes than any previous period in the nation's history, the Corporation has had only one strike worthy of mention, and that was of a minor and purely local character. This was the strike in the so-called captive mines in 1933. It was more a contest to gain control of a labor union than a strike against the Corporation. Its settlement gave the opportunity to formulate a labor policy which has met all of the subsequent situations and has not merely avoided the occasion for labor disputes, but has also worked positively to bring about an exceptionally fine and mutually self-respecting relation between the Corporation and its employees.

Since this is the accounting of a ten-year stewardship, it seems proper at this point and before going into a more detailed description of what has occurred, to note, that, while I

accept the responsibility for everything that has happened during the ten years, I was not charged with the responsibility during the entirety of the period. Judge Elbert H. Gary, at the time of his death in 1927, was the Chief Executive Officer of the Corporation, as well as Chairman of the Board and Chairman of the Finance Committee. It did not seem wise to the Board of Directors to continue the concentration of these several offices in one person, especially since at that time I cherished the hope of being able to complete the reorganization of the Corporation and retire within five years. Under the new arrangement, I became Chairman of the Finance Committee in December, 1927, and Mr. James A. Farrell continued as President and also became Chief Executive Officer. Mr. J. P. Morgan acted as Chairman of the Board but was not an executive officer. In 1932, for the first time, I became an executive officer, being elected Chairman of the Board and Chief Executive Officer, with Mr. William J. Filbert as Vice-Chairman and Mr. William A. Irvin as President. In 1933 Mr. Filbert succeeded me as Chairman of the Finance Committee. As of January 1st, 1936, Mr. Filbert retired as Chairman of the Finance Committee and was succeeded by Mr. Edward R. Stettinius, Jr. On January 12th, 1937, Mr. Enders M. Voorhees became Vice-Chairman of the Finance Committee. Mr. Benjamin F. Fairless succeeded Mr. Irvin as President and Mr. Irvin became Vice-Chairman of the Board of Directors as of January 1st, 1938.

In 1929 the Corporation had 39.4% of the steel ingot capacity of the country, produced 40.1% of the country's ingots and earned satisfactory profits. It was recognized, however, that the Corporation did not share sufficiently in the production of the flat rolled products used so largely by the automobile trade and in tin and terne plates, due primarily to lack of modern facilities for the production of such kinds of steel. The character of the steel consumption of the country had changed through the years. For instance, steel rails, which had amounted to 23% of the national production at the time of the Corporation's formation, had dropped to $8\frac{1}{3}$% in the 1928-29 period, while sheet and strip, which accounted for only $6\frac{1}{2}$% in the early period, rose to 19% in the latter period and tin plate rose from 3.3% to 5%. In 1936 steel rails accounted for only $3\frac{1}{2}$% of the country's output, while sheet and strip rose to 31% and tin plate to 8%. The trend of consumption was away from the heavy products where the Corporation was strongest and to the lighter flat rolled products where the Corporation did not possess the most up-to-date facilities. It was also evident that the directing personnel of the Corporation and of the subsidiaries must be infused with fresh blood in order the better to balance experience with enthusiasm and to ensure a succession of trained authority.

In 1929 the financial structure of the Corporation was materially changed through the redemption of the mortgage bonds of the Corporation to the value of $340,000,000. This was managed through the sale of 1,016,605 shares of common stock supplemented by a draft on current cash funds. Also $30,000,000 of the bonded debt of subsidiary companies was then retired. That transaction relieved the Corporation of a charge of about $31,000,000 a year. It is fortunately not necessary to speculate as to what would be the condition of the Corporation today, had it been required to pay this heavy interest charge during the depression years.

II

While the financial structure was being simplified and the burden of fixed charges lightened, the fundamental investigation as to whether the Corporation was unduly losing its position in the industry and what could be done about it was put under way. This survey was begun and carried forward until 1935 entirely by the engineers within the Corporation. Their findings were so far-reaching and involved expenditures of such magnitude that we decided it would be wise to gain an outside opinion and in 1935 we retained the firm of Messrs. Ford, Bacon & Davis to go through all of our properties, methods, personnel and markets and, in collaboration with our engineers and executives, to formulate definite recommendations.

We began our survey in 1928—and from the ground up. We set about the preparation of an exhibition of all the property of the Corporation, showing the age, condition and adequacy of the various facilities. The problem before us was to appraise the various markets for steel, the extent of our participation in those markets as contrasted with what should be our reasonable participation, and, where we were falling off, to discover why. In all the markets for the heavier main rolled products, the Corporation stood well, but in the markets for the lighter flat rolled products, the Corporation did not stand so well. This, it appeared, was largely due to a lack of the proper equipment to produce the kind of finished steel as and when the new generation of customers wanted it. The property survey disclosed that a large number of the plants needed a considerable amount of money spent on them and that many were so located with respect to markets or raw materials, or both, that no amount of money could make them over into

economical units. These last mentioned plants were scheduled for abandonment. Others were listed as of doubtful value and others were listed for progressive improvement.

It was determined, after a great deal of study, that the Corporation could achieve its highest efficiency by grouping its main producing units in the Pittsburgh district, the Chicago district and the Birmingham district. The Corporation had no adequate access to the Pacific Coast and so in 1930 the assets of the Columbia Steel Corporation were acquired for common stock, thus giving the Corporation a producing unit in every major market. In the same manner, the Oil Well Supply Company was acquired in 1930 to give a better outlet in the important field of oil country goods, and, in order to round out the Corporation's cement-making division, the Atlas Portland Cement Company was taken over and merged in 1930 with the Universal Portland Cement Company under the name of the Universal Atlas Cement Company. The only other important company acquired was the Virginia Bridge Company in 1936 in order to gain an outlet for bridge building materials in the South.

The steel industry, although in the popular mind a heavy industry with fixed locations, is, as a matter of fact, in some respects a mobile industry. Iron and steel are basic commodities, and a large part of their cost to the consumer is transportation. The ideal plant location is one where the cost of getting raw materials into the plant and getting the finished products out to the customers is at a minimum. This means, in a country the size of the United States, that, as consuming centers shift, the factors of location will change. A study of

plant locations gets down to freight rates on raw materials and freight rates on finished products to the logical markets.

During our ten-year period, the changes in the science of steel making came into our problem in a decisive way. The demand for open hearth steel made many plants obsolete that were built around the Bessemer process. That is one change. A second and greater change was the demand for a character of finished steel that could be made only on continuous mills with highly refined processes. Such mills represent large capital outlays and, while they are very economical if running full, they are very costly if running only on part time. Thus the concentration of production became a factor of such importance as sometimes to outweigh freight rates. In certain of our plants the obsolescence, taking that word in its broader significance, was such that their abandonment was scarcely a matter for discussion. But we proceeded very slowly with our program, getting rid of no facilities until we could see our way clear to take over their potential production in some other fashion, and during the rigorous period of the depression we largely suspended the program. Here, in brief summary, is the record of the plants abandoned, by years:

1928—Carnegie-Illinois: Bellaire Works, Bellaire, Ohio. Its production was entirely Bessemer and its business could be better handled at the Mingo plant. McCutcheon Works, Pittsburgh, Pa. Its merchant mills were obsolete and not worth rebuilding. The business was transferred to the McDonald Works. Milwaukee Works, Milwaukee, Wis. Its two blast furnaces were obsolete and its production could be better handled at Gary. Sheet and Tin Division—Old Meadow Works, Scottdale, Pa. and Pittsburgh Works, New Kensington, Pa. The mills were obsolete and too small to warrant rehabilitation. American Steel & Wire Company: Salem Works, Salem, Ohio. A nail mill which was obsolete and not well situated.

T. C. & I.: Alice Furnace, Birmingham, Ala. Obsolete.

1929—T. C. & I.: Bessemer Furnaces, Bessemer, Ala. Blast furnaces that had become obsolete.

1930—Carnegie-Illinois: Lower Union Works, Youngstown, Ohio. Five merchant mills that were obsolete. The production could be better handled at the McDonald Works.

1931—Carnegie-Illinois: Sheet and Tin Division—Pennsylvania Works, New Kensington, Pa.; Aetna-Standard Works, Bridgeport, Ohio; Chester Works, Chester, West Virginia; Leechburg Works, Leechburg, Pa. These small mills, producing plates, sheets and tin mill products, were obsolete and had no place in the larger program.

American Steel & Wire Company: H. P. Works, Cleveland, Ohio; Braddock Works, Braddock, Pa.—the first producing wire nails and the second wire. Obsolete and badly situated.

1934—Carnegie-Illinois: Sheet and Tin Division—Wellsville Works, Wellsville, Ohio, and New Philadelphia Works, New Philadelphia, Ohio. Both obsolete producers of black sheets.

National Tube Company: Pittsburgh Works, Pittsburgh, Pa.—Pennsylvania Department, producing black pipe for which there was little demand, and Republic Department, producing a small tonnage of seamless couplings which could be better produced elsewhere.

American Steel & Wire Company: Morris and Bailey Division, Wilson, Pa. A small cold rolled strip mill with obsolete facilities, badly located.

1935—Carnegie-Illinois: New Castle Steel Works, New Castle, Pa. A large but obsolete Bessemer plant whose production, like that of the Bellaire Works, could be better cared for by other plants in the district. Sheet and Tin Division—Dover Works, Dover, Ohio. A small, obsolete plant turning out black and galvanized sheets.

American Steel & Wire Company: Central Blast Furnaces, Cleveland, Ohio. Two obsolete blast furnaces. Newburgh Steel Works, Cleveland, Ohio. An obsolete plant. Duluth Works, Duluth, Minn. One blast furnace and five open hearth furnaces that were both obsolete and uneconomically located.

1936—Carnegie-Illinois: Joliet Works, Joliet, Ill. Dismantled in part as to its Bessemer production.

American Steel & Wire Company: Farrell Works, Farrell, Pa. Obsolete and not well located.

American Bridge Company: American Plant, Chicago, Ill. A small, obsolete plant with a business that could be better handled elsewhere.

1937—Carnegie-Illinois: Carrie Furnaces, Rankin, Pa. and Lucy Furnaces, Pittsburgh, Pa. Three obsolete furnaces. Sheet and Tin Division — Cambridge Works, Cambridge, Ohio; Sabraton Works, Morgantown, West Virginia; and Scottdale Works, Scottdale, Pa. The first two produced tin

mill products and the third galvanized sheets. All were small, obsolete and badly located.

Other plants were disposed of by sale. The small St. Louis Plant at St. Louis, Mo., and the somewhat larger Lassig Plant at Chicago, Ill., of the American Bridge Company were sold in 1928 and 1929. In 1935 the Cherryvale Plant at Cherryvale, Kansas, of the Edgar Zinc Company, was sold, and in 1937 the Corporation disposed of its Canadian interests because, due to the prohibitive taxes imposed under the Canadian-Empire agreements, they were no longer outlets for semi-finished material. These included the Canadian Steel Corporation, Ltd., at Ojibway, Ontario, making galvanized sheets, tin plate and wire products, and the Canadian Bridge Company, Ltd., at Walkerville, Ontario, with bridge and tower shops.

During the ten years, there were thus abandoned, dismantled or sold plants with an annual finished product capacity of 1,700,000 tons and an ingot capacity of 2,225,000 gross tons. The bookkeeping magnitude of getting rid of this portion of the Corporation's property may be realized by these charges to the reserve for replacements and retirements made during the period 1928-1937: During this period the sum of $469,315,401 was set aside for depreciation, depletion and obsolescence, and additional provisions of $116,220,028 were charged to surplus for these same purposes. Of these reserves there was written off to property on account of retirements and replacements a total of $210,932,325.

The survey, as it proceeded, brought out that the Corporation was strongest, as has been mentioned, in those heavy products for which temporarily there was the least demand.

It also brought out a considerable number of overlapping activities and a lack of modern facilities to produce the kind of sheets, plates and tin plate that the market demanded.

Much of the overlapping of activities was overcome by combining the Carnegie Steel Company and the Illinois Steel Company and later merging with them the American Sheet & Tin Plate Company. Adjusting the human factor in both production and sales is a continuous and always difficult problem, but it was made easier by the presence within the Corporation of what I think is the finest body of executives that have ever grown up in any organization. And so, in rearranging the personnel, it has been necessary to bring in only a few men from the outside. It has been possible to fill most of the positions by shifting men already in the Corporation's service. The changes have been thorough, and by 1937 comparatively few men and none of the subsidiary presidents held the same positions that they filled in 1928. In every case the men displaced had either arrived at the pension age or were otherwise provided for.

We inaugurated in 1928, on the basis of the reports of the Corporation's engineers, a system of definite budgets and forecasts. Owing in part to the financial conditions and in part to the rest period prescribed in the Steel Code under the N. R. A., the Corporation has not been able to proceed with its physical changes at the full speed of the budgetary estimates. The situation may be visualized by the amounts which the Finance Committee felt able to recommend compared with the amounts recommended in the budget. For 1929 this was 55%; for 1930, 53%; for 1931, 5.2%; for 1932, 6.5%; for 1933, 11.6%; for 1934, 15.3%; for 1935, 46.7%; for 1936,

50.7%; and for 1937, 49.3%. Nevertheless the Corporation, from January 1st, 1928 to December 31st, 1937, spent for additions, betterments and modernization the sum of $562,-569,358 and there were unexpended balances on December 31st, 1937, on approved authorizations for these purposes, of about $80,000,000. This makes a total of $642,569,358. The distribution of the expenditures has been as follows:

Manufacturing properties, including By-product Coke plants	$457,330,172
Coal properties	15,253,063
Iron Ore properties (incl. Stripping)	2,039,815
Limestone and Flux properties	12,254,591
Transportation—Railroads	68,328,538
Water Service	13,880,981
All Other Properties	4,021,842
Total	$573,109,002
Less: Proceeds creditable to property investment account from dismantlement and sales of sundry property	10,539,644
Net Expenditures on Property Investment Account	$562,569,358

These expenditures do not represent the carrying out of a program of expansion. The program has been primarily one of rehabilitation in order to meet trade demands. In most cases the new equipment has a somewhat larger capacity than the equipment replaced, but the additions have been incidental to the main objective. For instance, in the ten years, the Corporation has abandoned nearly five million tons of finished rolled capacity, while the new facilities already

built or under way will have a capacity of about six million tons. The objective has been efficiency. We desire only to keep pace with the growth of the national market.

Considerable expenditures have been made for the making and rolling of alloy and stainless steel, for the substitution of seamless pipe for lap weld pipe and for the substitution of welding mechanism for riveting in the fabrication of steel, but the greatest expenditures have been made to provide modern facilities for the production of flat rolled products. It is here that the revolution in steel products has taken place.

The 4-high continuous or semi-continuous sheet and strip mills roll a quality of product which could not be duplicated on the old-style mills, and the further processing of this material into sheet and tin plate products by cold reduction in 4-high continuous cold mills results in commodities much superior, both as to surface and physical properties, to that obtained by the older methods.

These improved products have made possible the light all-steel automobile and the light all-steel train, and undoubtedly we are only on the threshold of the changes in industry which will come about as the uses of this material are extended.

The use of cold reduced tin plate for the manufacture of cans in some cases greatly improves the quality of the finished article over hot rolled tin plate—formerly the only material available. Certain food products appear to be less difficult to preserve in the newer tin plate than in the old, thus broadening the use and extending the market into new fields.

Including the mills now under construction, the Corporation has installed 4-high mill capacity of 4,321,200 gross tons of hot rolled flat products. The largest development has been the new Irvin plant on the Monongahela River above Pittsburgh in the heart of the Corporation's producing area. This plant will be able to produce 600,000 tons a year of sheets, strip and tin plate in the most modern and most economical manner and will substitute for production in the district which is obsolete or will shortly become so. The second largest installation is at Fairfield, Alabama, in the Tennessee Coal & Iron property which will make cold reduced tin plate for the Southern and Far Western markets. The expenditures already made or in contemplation will by no means complete the physical reorganization of the Corporation, but they will give it the physical facilities to hold its own in every market.

The management of the Steel Corporation is by no means limited to a steel making job, for, to repeat, the Corporation has a three-fold obligation. But the making of steel is most certainly not a financial job and neither is it one that can be managed at long range. Therefore, as early as 1932, we planned to separate the actual making and selling of steel from the overall and financial administration and in that year we incorporated the United States Steel Corporation of Delaware. Events postponed the carrying out of that plan, but as of January 1st, 1938, it was put into execution and the coordination of all the iron and steel making activities of the subsidiaries of the Corporation has been concentrated in the new corporation with headquarters at Pittsburgh. Thus henceforth steel making and selling will be carried on in a steel making atmosphere—that is, on the ground—while

the financial and general policies will remain with the Corporation.

The directorate of the Delaware corporation includes the heads of the leading subsidiaries and is primarily an operating group, with only two men from the financial side of the New York office. The list of directors elected on December 8th, 1937 is as follows: William Beye, Chicago; A. N. Diehl, San Francisco; B. F. Fairless, Pittsburgh; Robert Gregg, Birmingham; B. F. Harris, Pittsburgh; C. F. Hood, Cleveland; M. D. Howell, Pittsburgh; G. C. Kimball, Chicago; Walther Mathesius, Chicago; C. V. McKaig, Pittsburgh; Thomas Moses, Pittsburgh; L. A. Paddock, Pittsburgh; J. L. Perry, Pittsburgh; C. H. Rhodes, New York; E. R. Stettinius, Jr., New York; E. M. Voorhees, New York; and R. E. Zimmerman, New York.

The executive personnel was organized thus: President—Benjamin F. Fairless (also President of the parent U. S. Steel Corporation); Vice President, Raw Materials—Thomas Moses; Vice President, Operations—Walther Mathesius; Vice President, Sales—C. V. McKaig; Vice President, Counsel and Industrial Relations—William Beye; Vice President, Finance, and Secretary and Treasurer—Max D. Howell; Vice President, Research—R. E. Zimmerman; Vice President, Purchases—C. H. Rhodes; Vice President, Special Duties, New York—Harold L. Hughes.

An Executive Committee was appointed as follows: Benjamin F. Fairless, Chairman; William Beye, B. F. Harris, C. F. Hood, Max D. Howell, Walther Mathesius, C. V. McKaig, Thomas Moses, J. L. Perry, E. R. Stettinius, Jr., E. M. Voorhees, and R. E. Zimmerman.

The responsibility for managing the properties as producing and selling units is now squarely on the shoulders of the executives in the field.

The reorganization and rehabilitation have proceeded according to a definite plan. Now the strands have been picked up and the fabric is emerging.

I have told of men, of money and of things. They are not enough of themselves to form a modern industrial unit capable of discharging both its public and its private obligations. There must be an inquiry into the nature of things, in order that the output of the Corporation may be of a constantly increasing usefulness. In other words, there must be both pure and applied research—the pure research to extend our horizons and the applied to make better that which we already know. Ten years ago we set up a central research laboratory at Kearny, New Jersey. Since then metallurgy and research have been elevated into a major division of the Corporation; that is, metallurgy and research now rank with production, sales and finance.

At the close of 1937, we had 174 laboratory departments throughout the Corporation. Most of these laboratories are for the metallurgical control which is an essential part of today's steel making. Others work on the problems of customers. Still others are experimenting with materials for new uses or searching for new uses for materials already in existence. A few are in pure research. An idea of the scope of the work may be had from the fact that the item of metallurgy and research cost $8,400,000 in 1937. It is impossible in the space here at command even to sketch the positive accomplishments of the research division. It is enough to

say that it has been fully demonstrated that the Corporation could not function as a producing unit today without the rein and the spur of science. As is the case with every division of the Corporation, the metallurgic and research activities have been surveyed by outside experts to discover how their usefulness may be extended.

III

In recording the course of the relations between the Corporation and those who work for it, I shall not use the term "industrial relations" because those words connote a picture not only of an impersonal relation but also of something that is carried on in a vacuum. If enough dollars are not received to make adequate yearly payments to the workers in the form of wages and to make adequate yearly payments to the owners in the form of dividends, the discussion of labor policies becomes largely academic. For no form of words will take the place of dollars.

The pressing labor problem through seven of the ten years under review has been to find work and dollars. Therefore, discussing labor relations as a thing apart and having nothing to do with the daily operations of the Corporation as a whole is utterly unreal.

The Corporation has a long and honorable labor record. The proof of the soundness of its labor policies is to be found in the attitude of the men employed.

It is noteworthy that the first dozen years of the Corporation covered the change of iron and steel making from an essentially hand craft to an essentially machine craft, while the last ten years have seen the advent of a more complete mechanization.

Such changes in method mean changes in the character of jobs and revisions in the rates of pay, with all the opportunities for dissatisfaction that must always accompany revision. The effect of mechanization has been to revise the rates of pay upward. Steel making today is a highly mechanized in-

dustry requiring a large amount of skilled labor and comparatively little unskilled labor. But it was demonstrated during part of 1937 that, with anything like a normal demand for iron and steel, the production will increase at a rate to require additional employees according to at least the rate of increase of the working population. The former unskilled workers have, on the whole, been absorbed as skilled workers. Given normal conditions and given normal earnings with which to finance obsolescence and expansion, the industry will in the future do more than its share in providing good jobs for men.

During no time since I became Chairman of the Finance Committee in December, 1927, have conditions been what could be called normal—no matter how the meaning of that word may be stretched.

No particular human problem presented itself during the boom years 1928 and 1929 and there was no change in the basic rate for common labor during those years. In fact there was no change in this rate from 1924 through 1930—which does not, however, mean that there was no change in the earnings of the men. The men earned more through steadier work. Their average earnings in 1928, for instance, were 13% higher than the average rate paid by the leading industries. The Corporation earned fair profits and part of the savings due to volume were passed on to the public in lower prices. A weighted average of the prices received by the Corporation for its principal products, taking 1914 as 100, gives 130 for 1924, 166 for 1926 and 157 for 1928.

When it developed, toward the end of 1929, that a depression was actually on and that orders could not be had in a volume sufficient to retain the full complement of men, we

proposed a very simple expedient, but one which was really a very fundamental thing. The authorities at Washington had requested the industrialists of the nation to sustain wages. Under the conditions then existing, a slash in steel prices could only have served to make the panic more panicky and could not have brought more business. Buyers do not pick up bargains in steel unless they can see a way of getting rid of their purchases at a profit, and at that time no one could see any way of getting rid of anything at a profit.

We worked out a plan by which we would not discharge anyone but would keep the full force of men at full hourly rates and share the work as equitably as possible. That policy not only was adopted by the Corporation, but also it was urged by the President of the United States, and I with others became active in a nation-wide movement to "share the work."

Our Share-the-Work movement turned out to be the most important single contribution to the human side of the depression. It later found its governmental expression on a grand scale in the National Industrial Recovery Act. Its policy ran directly contrary to the former industrial theory of wholesale firing as soon as business began to fall off. Of course it was not a remedy for anything and was not intended as such. It simply divided the work of the Corporation among as many people as possible instead of among as few as possible. In 1932 and the early months of 1933 when the Corporation's business was at its lowest point, the Share-the-Work movement gave income of a sort to about 75,000 more workers than would otherwise have been employed.

As the depression progressed, it became apparent that the work available to share was not enough to give a living wage to those of the Corporation's employees who were in the lower wage brackets. Then the Corporation resolved that no employee of the Corporation should want for food, shelter and clothing—and proceeded to make good on its resolution.

The Corporation gave its relief under three heads:

1. Direct relief by the Corporation.
2. Credits extended by the Corporation.
3. Relief extended by Good Fellowship Clubs and other organizations.

All officials of the Corporation were charged to keep in close touch with individual employees and to provide assistance when it appeared that the reduced income or means of any employee was insufficient to cover his needs. Each employee's situation was continuously but unobtrusively checked by plant committees, visiting nurses, Good Fellowship Clubs and other employee organizations, and whenever hardship appeared, the Corporation gave direct relief or credit or secured it through the Good Fellowship Clubs.

The Corporation also helped the men to help themselves through a broad extension of the program of encouraging garden work. During the depression the Corporation established many community gardens and provided a garden plot for every employee who would work one. Tracts of land adjacent to operating points were set aside for this purpose and the Corporation staked out plots, provided fertilizer, seed and equipment and water wherever necessary. In 1932 the employees worked 80,475 individual home gardens and community plots, and the total value of the produce was esti-

mated at $1,213,503.92. The Corporation furnished instructors to teach the housewives how to can the vegetables for winter consumption. Quite aside from the intrinsic value of the produce, the gardening activity gave a useful and healthful occupation to men who would otherwise have been idle. The effect on morale was incalculable.

The sharing of the work and the relief were not simply expedients. They were part of the policy to keep the Corporation in balance during the hard times, so that it might be a useful public instrument. When public relief came in, the Corporation withdrew from the field because it could not fairly pay taxes for public relief and also continue to pay for private relief.

The Corporation kept going through the acute stages of the depression. Its plants were never wholly closed. It went through with its $200,000,000 rehabilitation program planned in 1928. The unexpended balance under this program on December 31st, 1929 was $147,870,000 and on December 31st, 1930 was $90,500,000—all of which balance was subsequently spent. Taking the acute period as from January 1st, 1930 to December 31st, 1933, the Corporation spent $219,611,123 for improvements and betterments of its plants. Every dollar thus spent eventually became someone's wages.

The adoption of the National Industrial Recovery Act early in the summer of 1933 marked a definite change in the relation between the large corporate employer and its employees, because for the first time the Government became a party to the relation, and, except for the period between May, 1935, when the Supreme Court of the United States invalidated the

Recovery Act in so far as it touched the regulation of industry, and April 12th, 1937, when the Supreme Court affirmed the validity of the National Labor Relations Act, the Government has continued to be a party. The relation between employer and employee is no longer a private one governed by economic considerations but is a quasi-public affair in which political and economic considerations are mixed in ever-varying proportions.

The Steel Code contained these extracts from Section 7-a of N. I. R. A. and I quote them for future record because they contain the essence of the law which has since operated:

"(1) That employees shall have the right to organize and bargain collectively through representatives of their own choosing, and shall be free from the interference, restraint, or coercion of employers of labor, or their agents, in the designation of such representatives or in self-organization or in other concerted activities for the purpose of collective bargaining or other mutual aid or protection:

"(2) That no employee and no one seeking employment shall be required as a condition of employment to join any company union or to refrain from joining, organizing, or assisting a labor organization of his own choosing."

In June, 1933, or approximately two months before the Steel Code went into effect, there were submitted to all the employees of all the subsidiaries of the Corporation copies of a "Plan of Employee Representation." Its primary purpose was to provide for the employees at each plant a procedure for the election of representatives to meet with the management on wages, hours and other conditions of employment

and to effect a collective bargaining agency which would satisfy the provisions of the Act. There was at that time no single union taking in more than a fraction of the hundreds of occupations comprehended within the Steel Corporation.

Labor everywhere was restless during 1933—both before and after N. I. R. A.—and especially so in the Connellsville coke regions, for work had been very scarce in the Frick Company mines belonging to the Corporation, where the pay ran four dollars a day, and still scarcer in the commercial mines, where the pay dropped very low. The United Mine Workers was extensively organized in the field, but, with many of its heads busy at Washington on the codes, a group of outside agitators saw the opportunity to overthrow their authority and seize the union. These men forced a strike in the Frick mines in Fayette County, Pennsylvania.

Large reserves of coal had been piled up at Clairton, Pennsylvania, and, since mining was being carried on only to provide work, the Frick Company closed its mines in the interests of peace. The insurgent strikers organized a march on the Clairton Works, in the hope of bottling up the supply of coke and thus shutting down all the Corporation subsidiaries depending on that supply. The shift in the Clairton plant had no desire to strike, but it was recognized that trouble would begin if the shift attempted to pass the picket lines to give way to another shift. So the men were provided with sleeping quarters and food and for two weeks they stayed in the plant. In so far as can be ascertained, no Corporation steel worker or miner was in the march or in the picket line. The strike was not sanctioned by the United Mine Workers and was as much against the union as against the company.

The questions involved in reaching an adjustment of the strike were largely jurisdictional and had little to do with wages or hours. The main question was whether the captive coal mines were to be classed as part of the bituminous coal industry or as part of the steel industry. We drafted for consideration a memorandum which applied to the mines the same wages and hours as prescribed in the coal code and under the procedure of which the miners could elect representatives for collective bargaining without reference to any union or plan of employee representation.

This memorandum became the basis for a complete agreement which was announced by the White House on October 30th, 1933, as follows:

"Substantial agreement was reached today between the President, General Hugh S. Johnson and the 'captive' mine owners on the one hand and by the President, General Johnson and the United Mine Workers on the other hand.

"This agreement provides a basis for the immediate re-employment of thousands of coal miners who are now idle if the following measures are put into effect:

"Every mine which has an outlet for its products should be reopened and the employes working when the mine last operated put back to work without any discrimination as to membership in any labor organization.

"The check-off is conceded. A man may assign a deduction from his pay to whomever he desires.

"The existing Appalachian agreement between the commercial mine operators and the United Mine Workers will fix the hours, wages and working conditions under which the men will go back to work, and this will be posted at every mine.

"A formal agreement which shall contain terms and conditions at least as favorable as the Appalachian agreement will be made between the captive mine operators and the representatives of their employes selected as follows:

"When after the opening of any mine, in the opinion of the National Labor Board orderly conditions have been restored and protection of men working is assured, an election will be held under the exclusive regulation and direction of the National Labor Board and representatives will then be chosen for collective bargaining.

"Such representatives may or may not be members of any labor organization and any officer, national, State or local, of the United Mine Workers of America may be elected, and if elected, the operators agree to negotiate with him to a conclusion on the following principles:

"The representatives chosen by a majority will be given an immediate conference and separate conferences will be held with any representatives of a substantial minority. If no agreement with the majority representatives is reached in ten days the controversy will be immediately submitted by both parties to the National Labor Board for decision and both parties will agree to abide by the decision."

Those attending the White House conferences were:

General Hugh S. Johnson, Recovery Administrator.

Donald R. Richberg, general counsel of the N. R. A.

Myron C. Taylor, chairman of the board, United States Steel Corporation.

Nathan L. Miller, Paul D. Cravath and H. A. Moore of counsel of the American Iron and Steel Institute.

I. B. Block, chairman of the Inland Steel Company.

C. D. Caldwell, president of the Interlake Iron Corporation.

H. G. Dalton, chairman of the Youngstown Sheet and Tube Company.

Donald B. Gillies of the Corrigan McKinney Steel Company.

T. M. Girdler, chairman of the Republic Steel Corporation.

E. G. Grace, president of the Bethlehem Steel Company.

W. W. Holloway, president of the Wheeling Steel Corporation.

W. A. Irvin, president of the United States Steel Corporation, representing H. C. Frick Coke Company.

George M. Laughlin, Jr., chairman of the Jones & Laughlin Steel Corporation.

Thomas Moses, president of the H. C. Frick Coke Company.

George I. Humphrey of the Weirton Coal Company.

H. S. Wilkinson, chairman of the Crucible Steel Company of America.

Frank Purnell, president of the Youngstown Sheet and Tube Company.

The memorandum was important in that the Corporation, by providing that the men might elect any representatives they chose, put into effect the principle of proportionate representation—which simply means that the subsidiaries of the Corporation will recognize whatever agents for collective bargaining the men may choose. It applies the democratic process to representation, in that the subsidiary companies neither advocate any organization nor foreclose the rights of any organization.

By executive order, a National Labor Board, with Senator Wagner as its head, was set up to supervise the labor sections of the various codes. In February, 1934, a ruling was made that representatives for collective bargaining must be elected by a majority of workers in any plant and these elected representatives would be the sole bargaining agents for all of the men. This was an entirely new principle in American history.

In January, 1934, a month before the N. R. A. election rule was promulgated, we initiated conferences at each plant between the management and the employee representatives, with the idea of making the representation machinery more effective. The original plans had been made in the thought that only after a season of experience could a plan be had which would express the will of the employees. The original plan was substantially rewritten, on the suggestions of the employee representatives, with certain modifications made necessary, in order to meet the rulings and decisions of the National Labor Board and the National Compliance Board. The completed plan, after being made satisfactory to the N. R. A. authorities, was submitted to the em-

ployees to accept or to reject on a secret ballot. Votes were cast by 82.5% of those eligible, and 68.6% voted for the plan. Only two plants voted against the plan—and later both adopted it.

In June, 1934, which was the first anniversary of the plan, a general election for employee representatives was held at all the manufacturing plants of the Corporation. There were no restrictions as to who should be nominated as representatives, so that, if the men in any plant chose to elect labor union representatives who were not employed by the Corporation, they were free to do so. We then laid down this policy:

"The Company recognizes the right of its employees to bargain collectively through representatives freely chosen by them without dictation, coercion or intimidation in any form or from any source. It will negotiate with the representatives of any group of its employees so chosen and with any organization as the representative of its members, subject to the recognition of the principle that the right to work is not dependent on membership or non-membership in any organization and subject to the right of every employee freely to bargain in such manner and through such representatives, if any, as he chooses."

Only one non-employee was anywhere placed in nomination. He was not elected and all the representatives were chosen from among the employees of the Corporation. Of those eligible to vote, 83.76% cast ballots.

The right of the Labor Board established under the N. R. A. to force elections was disputed by many industries, and its legal status became so precarious and some kind of steel

strike seemed so imminent that President Roosevelt asked for and received from the Congress on June 19th, 1934, authority to settle labor controversies. On June 28th he set up the National Steel Labor Relations Board of three members—Judge Walter P. Stacy of North Carolina, Chairman; Admiral Henry A. Wiley, retired; and James Mullenbach of Chicago. The latter was ill much of the time and died in 1935. The Board had rather wide powers of mediation and also the power to hold elections by employees on the petition of either employers or employees to determine who should be the representatives for collective bargaining.

Certain employees of the Carnegie Company had, in March, 1934, petitioned the Wagner Board for elections under Section 7-a. The petition had been granted, but it lapsed with the creation of the Steel Labor Relations Board. This board was formally petitioned to order elections and it held hearings on the subject in October. We held to the principle of proportionate representation. There was no question of union "recognition." We were willing to "recognize" anyone, but we would not agree that union "recognition" could bind those workers who did not belong to the union. After considerable negotiation, Judge Stacy and Admiral Wiley prepared this memorandum:

"From date of acceptance to June 16, 1935, it is agreed that the .... will receive and negotiate with the duly authorized bargaining committee or committees of any organization as such, as representatives of those employees they represent, and will undertake to adjust complaints as to wages, hours, working conditions, discharges and other matters arising under Section 7-a of the National Industrial Recovery Act.

"In case of claimed discrimination in employment, discharge or preference of employees arising hereafter, which is brought before the National Steel Labor Relations Board for adjustment, we will submit to the jurisdiction of the Board as presently constituted and set up and abide by its decision thereon."

The memorandum was presented to the President by Judge Stacy and Admiral Wiley at a meeting in the White House on December 18th, 1934, at which were present:

- Frances Perkins, Secretary of Labor.
- Edward F. McGrady, Assistant Secretary of Labor.
- William Green, president of the American Federation of Labor.
- Charlton Ogburn, counsel to the Federation.
- Michael F. Tighe, president of the Amalgamated Association of Iron, Steel and Tin Workers.
- Myron C. Taylor, chairman of the board, United States Steel Corporation.
- Nathan L. Miller, counsel to the United States Steel Corporation.
- Eugene G. Grace, president of the American Iron and Steel Institute and of the Bethlehem Steel Corporation.
- Earle Reed of Pittsburgh, counsel to the National Steel Company.
- Thomas Girdler, chairman of the Republic Steel Corporation.

All the representatives of the Government and all the representatives of the steel industry agreed to the memorandum. Messrs. Green, Ogburn and Tighe refused any agreement

which did not contain exclusive representation. That ended the conferences and the hope of any settlement by agreement.

The ending of the National Recovery Administration, on May 22nd, 1935, by the Supreme Court killed the Steel Code and all the labor machinery which the N. R. A. had set up. We continued the wage scales that had been fixed by the Code. The 40-hour week regulation did not matter, for the Corporation had not enough business to give 40 hours' work a week to all its employees. It is an unfortunate fact that to date (April, 1938) the Corporation has not been able to give an annual average of 40 hours a week.

The passage by Congress of the Wagner National Labor Relations Act practically re-enacted Section 7-a, but went much further by providing methods for enforcing collective bargaining. It further provided that at the request of employees—but not of employers—the National Labor Relations Board, created under the Act, could order and supervise plant elections for bargaining representatives. The Act contained many other provisions, but these were the main ones.

In November, 1935, John L. Lewis organized the Committee for Industrial Organization. The purpose of the Committee was "to encourage and promote organization of the workers in the mass production and unorganized industries of the nation."

The first objective the C. I. O. announced was the organization of the employees of the steel industry, starting with the United States Steel Corporation. Then it expected to move on to the automobile and other mass production industries.

As a first step, the organizers took over the practical control of the old Amalgamated Association of Iron, Steel and Tin Workers and set up the Steel Workers Organizing Committee as the active organizing agent, with headquarters in Pittsburgh. In direct charge of the campaign was Philip Murray, a close associate of Mr. Lewis in the United Mine Workers.

The question of raising wages had already been actively brought up by the employee representatives. The Steel Corporation was in no position to raise wages without raising prices, and we feared that a price rise might check the flow of business. The first requests for the wage increases were not granted.

The President of the Corporation and the Vice-President in Charge of Industrial Relations urged upon me and upon the Board of Directors that we make a written contract embodying wage changes which would be made effective after negotiation with employee representatives, and that it be coupled with a sliding scale arrangement based upon changes in the cost of living. I appointed a committee as follows: Messrs. E. R. Stettinius, Jr., R. H. Watson, A. W. Vogt, H. H. Veerhusen, W. J. Filbert, formerly Chairman of the Finance Committee, and A. H. Young, Vice-President in charge of Industrial Relations—all from the United States Steel Corporation, the first four comprising the Control Committee; Messrs. T. H. A. Tiedemann and C. E. French from Industrial Relations Counselors, Inc.; and Messrs. G. W. Bacon, Wm. von Phul, J. F. Towers and E. S. Coldwell from Ford, Bacon & Davis, Inc.

This committee, in a full report, dated October 13th, 1936, found, inter alia:

> "A wage adjustment providing for an increase in the common labor rate from its present 47 cents per hour to 52½ cents per hour is desirable.
>
> "To the maximum possible extent, the new wage scale at each plant should be evidenced by the execution of a contract, signed jointly by the management and the employee representatives, and controlling the wage level for one year from date of the effectiveness of the new scale, namely, November 15th. Where formal contracts cannot be concluded, there should be a memorandum of agreement, or such formal recording of the agreement in the minutes of the conference as will establish the validity of the agreement thus negotiated.
>
> "A signed contract covering the adjustment of wages over a period of one year from November 15th, 1936, is felt to be desirable.
>
> "It is felt that, in order to negotiate a wage contract for a term of one year, it will be necessary to include in the contract certain clauses safeguarding the position of the employees or the management in the event of wide swings in the cost of living and, for that purpose, it is recommended that * * * * the current cost-of-living index and the current general wage levels be assumed as bases which will be expected to move in concert."

The recommendations of this committee, including the wage increase, were adopted by the Board of Directors of the Corporation, and contracts were entered into in November, 1936, between our steel subsidiaries and various employee representatives.

The contracts and the wage increase served further to activate the Steel Workers Organizing Committee, for some of the employee representatives refused to sign a contract and others signed with reluctance. The preparation for a strike against the Corporation went forward. The S. W. O. C. filed a complaint against the Carnegie-Illinois Corporation with the National Labor Relations Board, challenging, among other things, the legality of the contract and the whole representation plan. The company denied the allegations and also the jurisdiction of the board.

It seemed to us that the situation was one in which our principles of representation exactly applied and that the grave danger was in allowing events to proceed to a point where the ordinary rules of reason would not govern. I felt that it was my duty as a trustee for our stockholders and as a citizen to make any honorable settlement that would ensure a continuance of work, wages and profits. I discovered that Mr. Lewis was similarly minded and we had an informal, preliminary talk. We had the background of the captive coal mine agreements which preserved the principle of representation in connection with union contracts. They had worked very well. Furthermore, in the proceeding before the National Labor Relations Board, our counsel, with the full authority of the Board of Directors, was prepared to state (if occasion required) the continuing policy with respect to entering into contracts as a result of collective bargaining negotiations. But the proceeding before the Board terminated before the necessity of so stating occurred. The subsidiaries had written contracts in the coal mines and had executed written contracts in the 1936 pay increases.

This first talk with Mr. Lewis was on January 9th, 1937 in Washington, D. C. We went into the subject rather thoroughly, but on broad lines. At once on my return to New York, I discussed the whole situation with the available directors, and their unanimous opinion was that I should go ahead with the conversations to the end of reaching an agreement. Mr. Lewis and I continued our conversations on January 13th, but did not reach any conclusion that would conform with our policy.

On the 18th of February, in a meeting of the chief officers of our subsidiaries, I discussed the principles involved and asked each of those present whether, if the occasion arose, he would negotiate with the S. W. O. C., and they all answered in the affirmative. I also asked them whether, if an agreement were then reached, they would sign a contract in accord with the practice established with the employee representative groups in the steel plants in November, 1936. This they also answered in the affirmative.

Mr. Lewis was then in New York and expressed the desire further to explore matters with me, but we had no further meetings until February 25th, when, at my house in New York, our conversations were resumed on the basis of this formula which, for the first time, I showed to him:

"The Company recognizes the right of its employees to bargain collectively through representatives freely chosen by them without dictation, coercion or intimidation in any form or from any source. It will negotiate and contract with the representatives of any group of its employees so chosen and

with any organization as the representative of its members, subject to the recognition of the principle that the right to work is not dependent on membership or non-membership in any organization and subject to the right of every employee freely to bargain in such manner and through such representatives, if any, as he chooses."

For a time the negotiations seemed to be off, but on Sunday morning, February 28th, Mr. Lewis and Mr. Murray came to my house with Mr. Moses and, after a short talk, Messrs. Lewis and Murray accepted the formula in principle.

Mr. Lewis and I then agreed that, subject to the approval of a special meeting of the Board of Directors which I would call for one o'clock the next day (Monday), Mr. Murray would call upon Mr. Fairless in Pittsburgh at four o'clock and they would proceed to negotiate within the terms of our formula.

Such members of the Board of Directors as were available met at luncheon on Monday. The Board members, without any dissent, agreed that Mr. Fairless should go forward with the negotiations as Mr. Lewis and I had arranged. The action of the Board was communicated to Mr. Fairless, and Mr. Murray met him as arranged and they discussed an agreement. The next day (March 2nd) they made a preliminary contract, Mr. Fairless signing for the Carnegie-Illinois Corporation and Mr. Murray for the S. W. O. C. On March 17th, the Carnegie-Illinois Corporation and the S. W. O. C., on behalf of such employees as were members of the Amalgamated Association of Iron, Steel and Tin Workers of North America, executed the formal agreement for one year. The execution

of these contracts was endorsed and recommended by the Finance Committee and the Board of Directors of the Corporation. Our other steel subsidiaries shortly afterwards made identical contracts.

Although all employees of the steel manufacturing subsidiaries received the same wage increases as were provided for in these contracts with the S. W. O. C., the wage contracts of November, 1936, with the employee representatives remained in full force, and, if the cost of living index had risen so that, under the contracts, wage increases would have been in order, they would automatically have been put into effect. The union contracts and the employee representative contracts were based upon the same policy of contracting with the representatives of any of our employees.

The union has scrupulously followed the terms of its agreement and, in so far as I know, has made no unfair effort to bring other employees into its ranks, while the Corporation subsidiaries, during a very difficult period, have been entirely free of labor disturbance of any kind. The cost of a strike—to the Corporation, to the public and to the men—would have been incalculable.

On February 9th, 1938 these agreements were continued on the following terms:

"(a) Either party may, subsequent to February 28, 1938, at any time and from time to time give ten (10) days written notice to the other party of the time for the commencement of a conference of the parties for the purpose of negotiating the terms and conditions of a change of the 1937 agreements, which

conference shall be at the office of the Corporation in Pittsburgh, Pennsylvania, unless otherwise mutually agreed, and

"(b) if, because of a failure to agree, the 1937 agreements are not changed by a written agreement entered into by the Corporation and the Union within twenty (20) days from the giving of said notice, then the 1937 agreements and all of the provisions thereof, shall terminate upon the expiration of twenty (20) days from the giving of said notice."

The public or social obligation in dealing with those who work for the Corporation does not begin or end with arrangements for collective bargaining. We have assumed the responsibility, in so far as possible, of making the employment roster a cross-section of the age groupings of the community. We favor neither the young nor the old.

I take it as a sound principle that neither age nor youth is desirable or undesirable as such, but that a well-balanced organization should have an ample number of mature men of judgment and experience and an ample number of younger men gaining judgment and experience. Such an arrangement will insure policies which are in accord with the times. The Corporation was not so balanced, and in 1931 we revised the Pension Plan in order that men might retire in reasonable comfort and security at a time when there should be no need for them to work. During the years 1928-1937 inclusive, employees in high and in low positions to the number of 13,533 retired or were retired on pensions.

The average age of all the employees of the Corporation is now about 40 years. The bulk of the employees are between 30 and 50. The number of employees between 25 and 30 years is slightly greater than the number between 50 and 55 years, but the number between 55 and 60 years slightly exceeds those between 20 and 25 years, and there are more employees between 65 and 70 years than there are below 20 years.

Recognizing a threatened future shortage in skilled workers and also recognizing that many high school graduates have no opportunity to acquire a skill which would enable them to earn higher wages, we have brought into being in the Carnegie-Illinois Corporation what we call a plan for apprentice training but which is really in the nature of an industrial university. The boys, who must be at least eighteen years of age and of good character, are given a thorough mechanical training in the shops and mills and at the same time are taught mathematics, mechanics and the strength of materials, with specialized technical instruction according to the subject on which the student chooses to concentrate. The boys are paid at nearly the same rate as common labor and hence no boy need, for the lack of funds, give up the opportunity to qualify himself for the higher pay ranges and the eventual chance of becoming an executive. Most of the Corporation's executives began in the ranks and without the advantage of such training. We fervently desire to keep open the way from the bottom to the top.

IV

In the prior sections, the Corporation has been considered in its producing and employing phases. But, although the Corporation and its subsidiaries—the group that has come to be known as U. S. Steel—are legally things of themselves, actually they are only methods of ownership by which men and women can put their savings to work. The officers and directors of the Corporation are in the nature of trustees of the savings entrusted to them.

On December 31st, 1937, the registered owners numbered 213,169—among them being 87,618 women, 9,610 trustees or guardians and 40,000 employees. They were located in every state and territory of the United States and in nearly every country in the world. Ninety per cent. of all of the registered owners held less than one hundred shares of stock each, and 74% of the holders of common and 66% of the holders of preferred stock held less than twenty-five shares each.

There is nothing mysterious about what United States Steel companies do to earn a living. They are bound by exactly the same rules as those who work for them. They live on the money they get from the public in exchange for goods and services. If they pay out more than they take in, they are in the same position as anyone who spends more than he earns. The deficiency has to be met by drawing on savings or by borrowing. Everyone knows that spending beyond earnings can go on just so long and no longer.

For current expenses and payments to the owners, U. S. Steel must rely upon the amount which it receives from the public in exchange for goods and services. Since it has been

the prudent habit of the Corporation never to pay all the current earnings to the stockholders, there has through the years been built up a rainy day or surplus fund which has, from time to time, been used to finance additional construction and to pay the difference between outgo and income during bad years. The portion of this fund in cash or easily marketed securities has never been large enough to pay the wage bill of a single year. Events have demonstrated that the Corporation has never withheld from the owners a larger sum than was needed for the safe continuance of the Corporation as a going concern.

For capital expenditures—that is, for the cost of facilities to keep in step with the development of the nation and of the art—the Corporation has only three sources of money. These are: (a) the amounts that have been withheld from the owners; (b) borrowing; and (c) the sale of additional capital stock. The possibilities of borrowing or of selling stock are limited by the supply of funds and the willingness of investors, large or small, to share in the fortunes of the Corporation. That willingness depends in a large degree upon the performance of the Corporation as an earning instrument.

The whole financial picture of U. S. Steel through these ten years is contained in the ten annual reports covering the period. They are wholly comprehensive, but they do not—and in the nature of things cannot—resolve affairs into their broad economic elements. Therefore two accounts of a different nature are here attached. The first, on page 48, shows "How We Earned Our Living." The second, on pages 57 and 58, shows "How We Secured Our Funds." Let us take them up in that order.

HOW WE EARNED OUR LIVING

January 1, 1928, to December 31, 1937

(000,000 omitted)

U. S. Steel received from the public in exchange for goods and services		**$6,950**
This was disposed of as follows:		
Items over which U. S. Steel had no control:		
Goods and services purchased from others	$2,496	
Taxes	467	
Depreciation and Depletion	518	3,481
(Of which $103,000,000 was wages paid directly by U. S. Steel and not included in "Wages" below)		
Balance remaining (being 50% of the Gross Receipts)		**$3,469**
Disposed of as follows:		
Wages and salaries (being 84% of "balance remaining")		2,928
Leaving a balance of		$ 541
Disposed of as follows:		
Interest paid for the use of assets representing savings, the ownership of which is evidenced by bonds and mortgages	$ 82	
Dividends paid for the use of assets representing savings, the ownership of which is evidenced by preferred and common stock, being 13.6% of "balance remaining"	472	554
Leaving a deficit of		$ 13

(The sum of $554,000,000 paid for the use of assets by U. S. Steel reduced to an average annual return on the average amount of assets used during the period amounts to 2.95% per year. Since $13,000,000 was withdrawn from prior earnings, the earned return was 2.88% per year.)

The money received by U. S. Steel during the years covered by the account here stated totalled nearly seven billion dollars. In order to do this business, U. S. Steel had to lay out certain amounts. It had to buy goods and services from others to the sum of $2,496,000,000. A considerable portion of this outlay was for railroad freight, the price of which is fixed by law, and, as to the remaining items, U. S. Steel had to pay market prices.

In addition to paying for goods and services, it also had to pay out the sum of $467,000,000 in taxes. U. S. Steel could not control these payments, for tax rates are fixed by law.

And, finally, it had to pay out or set aside the sum of $518,000,000 for the depreciation and depletion of tools, buildings, mines and other properties. Every pound of iron and steel produced causes wear and tear on machinery and buildings and draws on the reserves of ore and coal. U. S. Steel cannot keep its plant from wearing out, and unless it sets aside money for wear and tear, it cannot stay in business.

Thus U. S. Steel actually has no control over 50% of the money it receives from the public. It must pay out half of every dollar it gets, in order to do business. The amount so paid out, however, with the exception of taxes, is nearly all made up of wages, for those from whom U. S. Steel buys must in turn pay wages. U. S. Steel does some of its own building, and, during the account period, paid out $103,000,000 in wages which in a smaller concern would have been paid to outside contractors. These wage payments are in addition to the wage payments in the stream of production.

The balance remaining, being 50% of the dollar taken in by U. S. Steel, has to be divided between those who own the

various plants and other properties and those who manage them and work with them. U. S. Steel over the period, which comprised some very good years, some very bad years and some moderately bad years, paid out for wages and salaries 84% of the balance remaining. That left only 16% for the owners and of this it paid out $82,000,000 as interest on money loaned to the company on bonds and mortgages. U. S. Steel has no choice as to paying this interest, just as an individual has no choice about paying the mortgage interest on his home.

U. S. Steel paid out the sum of $472,000,000 as a return to those who owned the property used by the managers and the workers. This was 13.6% of the sum left over. However, not all of this was earned during the period. U. S. Steel had to draw to the extent of $13,000,000 on money which had previously been earned but had been left in the business as working capital instead of being distributed as earnings.

Taking the value of U. S. Steel property as shown by its books — which is the investment cost of the property — the actual earned return to the owners of the property over a period that included great prosperity and deep depression was at the rate of 2.88% a year.

The figures as exhibited are of very great moment in considering the system under which we live and how it may be improved, for, while the account is of U. S. Steel, all business will break down into the same component parts. In the item "Goods and Services Purchased from Others" are thousands of corporations, firms and individuals whose affairs, in turn, contain exactly the same elements as the affairs of U. S. Steel. The vitally important item is the "Balance Remaining," for

out of that item must come the returns to the owners and to the workers. No matter what form of industrial or social organization may be adopted, the three items "Goods and Services Purchased from Others," "Taxes" and "Depreciation and Depletion" will exist in some form, for no enterprise can be wholly self-contained, every government must, in some fashion be supported, and no one can prevent tools and machinery from wearing out. Changing the form of ownership will not change the elements.

The whole social question, therefore, revolves about the "Balance Remaining." Out of that sum must come the returns to the owners and to the workers. This fact is inexorable and cannot be changed. It is sometimes claimed that wages must be arbitrarily adjusted to certain standards of living. It seems to be forgotten that the standards of living are founded upon the record of wage paying ability and that, if industry in the past had not progressively advanced wages, there would be no basis for the high standards we have already expressed. Take the wage record of U. S. Steel.

U. S. Steel has always believed in high wages. It has everything to lose and nothing to gain through low wages. If ours were a low-wage country, there would not be enough business to support a concern employing as many men as does U. S. Steel. This is not to say that high wages always mean high purchasing power. The purchasing power is in the goods produced and, if the wages paid do not result in goods produced, the dollars in the pay envelope will be only ghosts of dollars, for they will have no buying substance. Were production and wages not linked, things would be very simple. The Government could simply print dollars and pay all of us.

But if no one worked, nothing would be produced and so there would be nothing to buy with the money. We should be like men adrift at sea with plenty of money but nothing to eat.

U. S. Steel can distribute as wages only the money that comes to it from production—from selling goods. It has managed through the years heavily to increase the hourly rates of pay. The reductions have all been forced by severe depressions and only four out of the thirty-six years which cover the life of U. S. Steel have seen reductions. These reductions have been only pauses in the march forward. Here are the facts.

The base rate for common labor in the Pittsburgh district gives the best general indicator of the wages paid by U. S. Steel. The hundreds of classifications of rates do not all rise or fall exactly with the lowest rate, but the trend of the base rate shows the trend of wages. From 1895 to 1900, which was the period directly before the organization of U. S. Steel, the Pittsburgh district rates for common labor rose from 12 cents to 15 cents an hour. The rate was increased in 1902 (which was the first full year of U. S. Steel's operations) to 16 cents, and with dips in 1904 and 1905, attained 20 cents in 1913. That was the year before the Great War. During the war period, rates went steadily upward and were at 51 cents during the post-war boom of 1920. Thereafter the rates declined—although not so rapidly as the prices received for steel products—but rose again in 1922 and 1923, after which they remained unchanged until the depression of 1930, reaching a low point in 1932. From that point they climbed upward and in 1936 passed the 1920 record. The rate of 62½ cents established in March, 1937, is an all-time high.

Since the establishment of U. S. Steel, its average hourly wage rates have increased by well over 300%.

Hourly rates do not tell the story, for families have to live by the year and not by the hour. And also dollars do not tell the whole story, for in 1920 the prices of things were so high that the high wages paid for an hour's work bought no more in goods than the lower rate of 1932. The point is that purchasing power is not always raised by raising wages and is not always lowered by lowering wages.

In terms of living—which is the real test—the average employee of U. S. Steel today is far better off than was the average employee thirty-six years ago. Anyone who doubts that need only compare what he has with what his father had. For instance: In 1909-1910 the supposedly inexpensive automobile was introduced. It cost around $1,000 and the average wage and salary paid by U. S. Steel was $780 a year. In 1937 an incomparably better car could be bought for $500 and U. S. Steel's average annual wage was about $1,700. What before cost about sixteen months' work now costs less than four months' work.

Take articles that are bought by every household. Take the year 1914 as a typical price year. In that year U. S. Steel paid an average wage and salary of $905. Of course some men received more and others less than the average. Call the average wage and salary $900 for 1914 and $1,700 for 1937. The increase is approximately 89%. During the same period the cost of living—food, rent, clothing, and so on—rose about 40%. That again, is an average. Some articles of general use have increased in price and others have de-

creased—clothing is one that has sharply increased. A supply of clothing which cost $175 in 1914 cost $218 in 1937, or about 2⅓ months' work as against about 1⅔ months' work. Wages are paid in money, but their true measure is the amount of goods they will buy.

The record shows that, over the years, after paying the necessary expenses, U. S. Steel paid out in wages and salaries 84% of the monies that remained with it. But the record covers ten years, and some of them were very bad years—at one point operations dropped to 13.6% of capacity. During the years 1932, 1933 and 1934, the wages and salaries paid exceeded the sum which was left over. The wages in those years were in part paid out of the savings held by U. S. Steel for the owners—that is, out of earnings that had not been distributed in good years.

In the prosperous year of 1929, wages took 65% of U. S. Steel's receipts after the payment of necessary expenditures. In 1930 they took 77% and in 1931 they took 93%. In 1935 they took 97%. In 1936 they took 85% and in 1937 they took 80%.

It is apparent that the returns to the owners did not stand in the way of wages, for in some years the owners received little or nothing and the total amount received by them over the ten years was not considerable. The fund was divided 13.6% to the owners and 84% to the wage earners—the rest going for mortgage interest. The cost of government was a more important factor than the returns to the owners.

The taxes paid during this period were $467,000,000. That is, the units of government, which had put no savings into

the property and had taken no risk, received $8,000,000 more than the owners (from earnings), who had ventured their savings and thereby created nearly $3,000,000,000 in wages.

In the years 1928 and 1929 the earnings were high in comparison with taxes. During the years 1930-1936 inclusive, taxes in each year exceeded earnings. In 1937 with earnings of $94,944,358 the taxes were $88,048,237.

During the ten years 1928-1937 the taxes paid were equivalent to about one year and seven months' wages and salaries. Take the full record in round numbers:

In 1928 taxes equalled 1.5 months' wages and salaries.
In 1929 taxes equalled 1.6 months' wages and salaries.
In 1930 taxes equalled 1.5 months' wages and salaries.
In 1931 taxes equalled 1.6 months' wages and salaries.
In 1932 taxes equalled 3 months' wages and salaries.
In 1933 taxes equalled 2.3 months' wages and salaries.
In 1934 taxes equalled 2 months' wages and salaries.
In 1935 taxes equalled 1.8 months' wages and salaries.
In 1936 taxes equalled 1.8 months' wages and salaries.
In 1937 taxes equalled 2.4 months' wages and salaries.

It will be noted—and the point is one of great public significance—that during 1937, which for the first three quarters was an exceedingly prosperous year, with the hourly wage rates at the highest point on record, taxes took more months of wages and salaries than during the prosperous years 1928 and 1929.

Take taxes from the public angle. That is, what did they amount to per $100 of sales and other revenue? In 1928 the taxes in each $100 were $5.05; in 1929 they were $5.03; in 1930 they were $5.72; in 1931 they were $6.21; in 1932 they were $11.00; in 1933 they were $8.41 and in 1934 they were

$8.46; in 1935 they were $7.59; in 1936 they were $6.68; and in 1937 they were $8.56.

The consideration of these factors leads us directly into prices. It is self-evident that U. S. Steel must find larger returns for owners or workers either in more efficient operation which will increase the "Balance Remaining" or in higher prices. But higher prices for products sometimes deter demand and thus produce a smaller volume of receipts from the public, while efficiency is not an over-night affair and can usually be gained only by heavy capital expenditures—and the money for capital expenditures can be gained only from earnings or from the public.

If the Corporation has no control over 50% of the amount it receives, and if 84% of the "Balance Remaining" must go for wages, its price system must be less than flexible —for its area of price discretion is negligible.

Our system of enterprise depends upon price flexibility. If all the principal factors are rigid, there can be no such flexibility.

The tabulation "How We Secured Our Funds" is self-explanatory. It shows that out of total receipts of $1,465,841,207 only $446,555,361 came from current operations. The balance came from prior earnings, from new financing or from reserves provided during this period to take care of depreciation and other requirements.

HOW WE SECURED OUR FUNDS

January 1, 1928 to December 31, 1937.

Cash on Hand December 31, 1927			$ 124,424,259.74
RECEIPTS FROM THE FOLLOWING SOURCES:			
Net Earned for Capital Stock in period		$446,555,361.98	
Other Net Income Receipts not earned in period:			
Federal Income Tax Refunds (exclusive of interest on refunds of $25,823,015 which is included in above net profits)		49,084,368.21	
Railroad Recapture Deposits Refunded		6,355,750.25	
Other Net Operating Receipts made available:			
Appropriations from gross earnings for Depletion and Depreciation Reserves	$561,634,952.06		
Less Expenditures for replacements charged to Depreciation Reserves and net drafts on Insurance, Contingent and other Operating Reserves for payments and charges in excess of newly created allowances to such Reserves from Earnings	24,749,840.92	536,885,111.14	
Receipts from Issuance of Common Stock:			
From Subscriptions by Stockholders, (1,016,605 Shares)	$142,697,624.50		
From Subscriptions by Employees, (33,974 Shares)	5,683,762.00		
In purchase of Additional Properties, (536,438 Shares)	91,570,334.92	239,951,721.42	
Net Receipts from liquidation of Land Sales and Home Owning Contracts, etc.		9,738,805.04	
Sundry Miscellaneous Receipts (Net)		6,707,980.03	
Reduction in Net Liquid Assets (other than Cash):			
In Government and other securities and investments	$127,583,874.76		
In all other Liquid Assets (Less Current Liabilities)	42,978,234.97	170,562,109.73	1,465,841,207.80
Total Cash Resources available			$1,590,265,467.54

PAYMENTS FOR THE FOLLOWING PURPOSES:

Dividends declared during the period:			
On Preferred Stock	$252,196,770.00		
On Common Stock	219,715,683.50	$471,912,453.50	
Expended for Additions, Extensions and Betterments of the Properties, including Mine Stripping and Development Expenditures and Advanced Royalties paid		567,923,869.73	
Bonds, Mortgages and Purchase Money Obligations Retired:			
Par of Same	$398,835,291.17		
Premium paid in retirement	40,781,204,25		
	$439,616,495.42		
Less Bonds and Mortgages Issued	26,209,249.98	413,407,245.44	
Acquirement of Properties of Atlas, Columbia Steel and Oil Well Supply Companies:			
Fixed Property Acquired	$ 50,519,536.54		
Other Assets (Less liabilities assumed)	41,050,798.38	91,570,334.92	
Total Payments in the period			1,544,813,903.59
Cash on hand December 31, 1937, per Consolidated Balance Sheet			$ 45,451,563.95

V

In the foregoing sections, the major developments of the past ten years have been set out. The single objective of all that has taken place during the decade has been to make over the Corporation into an instrument of greater value to its owners, its workers and the public that it serves. That is a wholly admirable objective and in consonance with the Corporation's place in the nation. That place is not entirely commercial—as I have before set out. There is a national aspect. The presence of the Corporation gives a measure of protection to the nation, both in peace and in war. For it is not without significance for the nation to have always at call the developed facilities of the Corporation and always to be assured of its sympathetic and competent help.

To what extent have our objectives been attained? Is the Corporation a better instrument than it was in 1928?

It is not enough to point to the change in the public attitude toward the Corporation, for that must be in addition to its record as a commercial enterprise. Let us look at the commercial record. Because of the wide scope of the Corporation's production, touching practically every field of endeavor, only an abnormal national economic condition would keep every division of the Corporation fully occupied. Therefore it would not be normal for the Corporation to have as high a rate of earnings as a steel company making only specialties during a period when the specialties were in great demand. On the other hand, the same reasons which would prevent the Corporation from logically being the highest earner in a particular season ought to prevent it from ever

being the lowest earner, and over the years the returns to the owners and the annual wages of the workers should be well above the average. The business of the Corporation is diversified in the fashion in which insurance investments are diversified and for the same reason.

The extraordinary economic condition which caused the country for several years to demand largely the lighter flat rolled products very seriously affected the Corporation because it was not adequately equipped for these lighter products. The national demand is now broader and the Corporation's higher rate of earnings in 1936 and 1937 was due, in part, to a change in the public economy which called for more of the heavier products. But the Corporation would not have participated in the total business to the extent that it did, had not some of its new equipment already been functioning. Our essentially long-range planning has brought an improvement in short-range income.

The overall figures fairly tell the story. From 1928 through 1931, the Corporation's participation in the business of the country on an ingot basis was higher than the percentage of its capacity to the capacity of the country. From 1932 through 1935, the Corporation's participation was less than its relative capacity. That is, through those years it was losing some ground. The trend, however, was reversed in 1936 and the upward climb began. In 1937 the Corporation fully maintained its competitive position. With 36.9% of the nation's capacity, it furnished 37.2% of the nation's requirements. This is particularly significant in view of the fact that much of the most important new production was not in action during 1937.

None of the goals as set have been reached. But the weight of the evidence—the record to date—is that they will be reached at the expected time.

* * *

In spite of adverse conditions, we have undertaken to make our Corporation a more perfect instrument for the service which it performs and for the use of those of us who have worked or will hereafter work within it. The results of these efforts are apparent to all of us. We have had high peaks of production and of corresponding opportunity for employment and we have had deep valleys. These have tested the fibre of all of us, and, I believe, have welded us together in a strong and sympathetic group that feels real concern for one another's welfare and for the welfare of the Corporation and will unite to continue the Corporation great in every respect.

Out of these experiences and difficulties, there arises within me a great feeling of gratitude for the loyalty and the earnest cooperation that have been displayed throughout the Corporation. While I have always had the highest respect for men and women who work and labor, either singly or together, for a worthy objective and for the advancement of our country's well-being, the experiences of these years have raised that feeling to greater heights. I am sure that there is in America today no body of men and women more loyal to the country and its interests or more loyal and self-sacrificing in the doing of their daily tasks than those men and women who labor in all the ranks of the United States Steel Corporation. They are thorough Americans and I am proud to have worked with them.

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